BASIS BRIEF

Broadening Access and Strengthening Input Market Systems

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Helping Disadvantaged South Africans Access the Land Market: Past Performance and Future Policy

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Racial legacy and recent reforms

South Africa's legacy of racially-based landownership was formalized in 1913 when the Natives Land Act was promulgated. Black African landownership was restricted to native reserves where customary land tenure was administered by tribal chiefs. The 1936 Native Trust and Land Act expanded the area of these "homelands" to 6.2 million hectares, or about 13% of the national area. These laws prevented non-whites from owning commercial farmland, while other laws prevented white farmers from leasing their land to black tenants and sharecroppers. After political democratization in 1994, the South African government initiated land reform to redress the imbalance in landownership.

Land redistribution would be the flagship of land reform, with the goal of transferring 30% of white-owned farmland to some 800,000 disadvantaged (non-white) households over five years. The main instrument was the settlement/land acquisition grant (SLAG), which these households could use to purchase commercial farms from white owners on a willing buyer, willing seller basis. By the end of 2000, the SLAG program had transferred 780,407 hectares to 55,383 disadvantaged households, some 14% of which were headed by women. Together, land restitution and redistribution transferred only one million hectares—or less than 1.2% of the 86 million hectares of white-owned farmland—over a period of six years. Most of these transfers were directed to resettlement schemes on low quality land with communal tenure arrangements in order to reach many beneficiaries quickly and at modest cost.

Land restitution and redistribution transferred less than 1.2% of white-owned farmland

Government-assisted land transfers, however, tell only part of the story, as private transactions can also transfer land to disadvantaged people. In 1997, BASIS financed researchers from the School of Agricultural Sciences and Agribusiness at the University of Natal to monitor *all* farmland transactions in the province of KwaZulu-Natal and to recommend ways of making the land market more accessible to disadvantaged people. This project was part of a broader research program involving similar projects in Zimbabwe and Namibia. Annual census surveys of transfer deeds were used to estimate the *rate* of land redistribution and to assess *how effectively* private transactions performed *compared* to the government.

Key findings

During 1997-2000, 94,160 hectares of all commercial farmland in KwaZulu-Natal was acquired by disadvantaged owners. This area accounts for only 1.8% of the 5.31 million hectares of farmland available for redistribution (Figure 1). Clearly, this rate of land redistribution falls far short of the goal of 6% per annum first set by the government in 1994. Figure 2 shows that private, non-market transfers (mainly donations and bequests) accounted for 12,112 hectares of the redistributed land, government-assisted (SLAG) purchases for 33,263 hectares, and private purchases (cash and mortgage loans) for 48,784 hectares. Private purchases were promoted by sugar millers selling

Figure 1. Estimated annual and cummulative rates of farmland redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2000

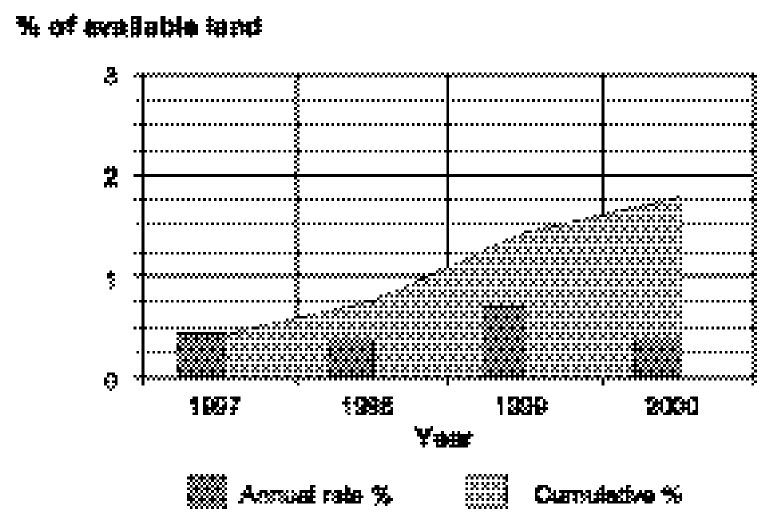
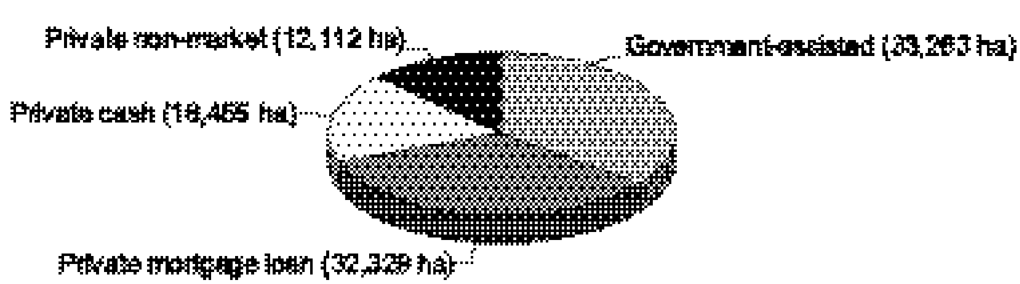


Figure 2. Total area of farmland transferred by private and goverment means to disadvantaged owners in KwaZulu-Natal, 1997-2000

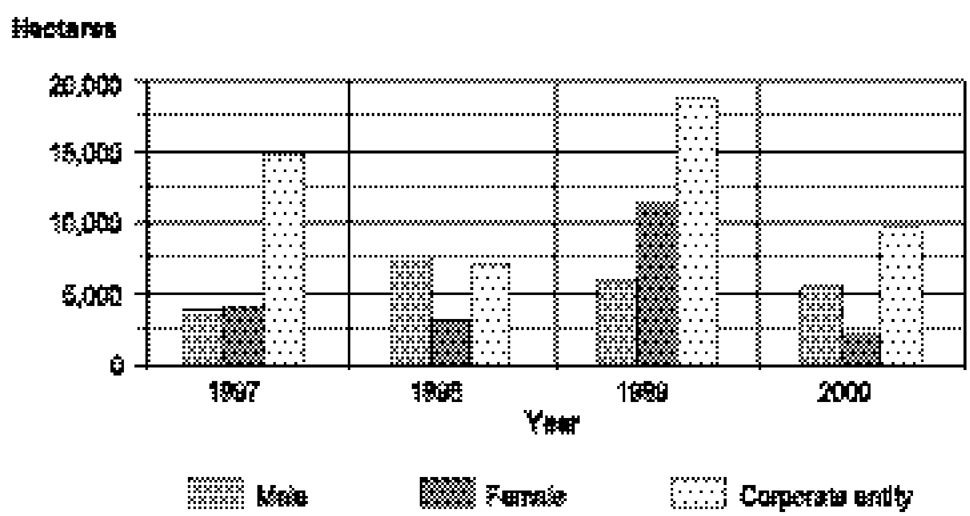


their estates to disadvantaged buyers via loans with finite, diminishing interest rate subsidies. These mortgage loans, administered by Ithala Bank, were innovative, as the subsidy provided by the millers helped ease cash-flow problems caused by inflation, and declined over time as the new owners' ability to repay debt was expected to improve.

The SLAG program not only redistributed less land than did private purchases but also transferred land of much lower quality (weighted price of R902 versus R2935 per hectare) to beneficiaries whose land tenure is still relatively insecure. Household surveys conducted in 1999 show that tenure insecurity has reduced both the ability and incentive of beneficiaries to invest in agriculture. Again, this outcome is not consistent with government's expectation that land redistribution would promote a highly efficient small-scale farm sector.

Women are well represented in the transactions that transferred land to individual owners and married co-owners (Figure 3), largely because bequests favor women. For the same reason, the total area of land acquired directly by women as owners and married co-owners (20,815 hectares) closely matched the total area acquired directly by men (22,901 hectares). Women, however, gained less land wealth through market transactions than did men, and there is concern that women are under-represented in transactions that transferred land to corporate buyers. This certainly applies to the Trusts and Communal Property Associations established by government to represent the interests of its land reform beneficiaries.

Figure 3. Total area of farmland transacted by category of disadvantaged owners in KwaZulu-Natal, 1997-2000



A moratorium on new SLAG projects after July 1999 reduced government-assisted land transfers in KwaZulu-Natal from a peak of 14,727 hectares in 1999 to just 2,133 hectares in 2000. The Land Redistribution for Agricultural Development, or LRAD, program that will extend larger grants to creditworthy farmers has replaced the SLAG program, but was launched only in August 2000. In the meantime, government-assisted land redistribution lost momentum throughout the country and disadvantaged people lost access to the land market.

It is hardly encouraging that private purchases redistributed more land—and much more wealth—compared to the SLAG-funded purchases in KwaZulu-Natal. Overall, transfers to disadvantaged owners made up less than 10% of the total area of farmland transacted in the province. Clearly, the market has much greater potential to redistribute land than what has been realized to date.

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Briefs

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The way forward: Policy options and new tools

Strong response to innovative loan products offered by Ithala Bank and the Land Reform Credit Facility (LRCF)—a wholesale financier—to help disadvantaged people purchase land or equity (shares) in viable farms suggests that access to the land market is constrained by inflation-induced cash flow problems associated with conventional mortgage loans. In addition, the costs, delays and uncertainty associated with the survey, registration and transfer of affordable land subdivisions constitute another major constraint.

Obstacles preventing the repeal of the 1970 Subdivision of Agricultural Land Act, must be addressed without further delay. Scrapping this Act will make it easier for those poor and part-time farmers not funded by the LRAD program to finance smaller, more affordable farms. Likewise, government needs to reduce the inflation rate and to ease the statutory costs of subdividing and transacting farmland, as this would allow commercial banks to finance lower-income farmers and equity shareholders. Access to larger land reform grants for farm workers and aspiring farmers would also improve the outreach of private financiers because the poor cannot make significant contributions of their own when buying equity and land. Ideally, the LRCF should be allocated a share of these grants and authorized to award them contingent upon the disbursement of a loan. Under these conditions, the LRCF will have to be capitalized at scale in order to keep pace with growing demands for its loans from commercial banks.

While there is some evidence that women's access to mortgage finance improved relative to that of men in KwaZulu-Natal during 1997-2000, this does not account for the advantage that men have as members of corporate owners. Efforts to improve the outreach of private financiers—as outlined above—and to pay more than lip service to gender policy when awarding land reform grants would obviously help to improve women's access to the land market. Wealth redistribution through equity-sharing schemes could also help to correct gender imbalances as women are well represented among farmworkers in many parts of the country. A national exchange program involving mentors experienced in successful equity-sharing projects may help to transfer skills and to broaden views on approaches to land reform.

Farm invasions in Zimbabwe stress the urgent need for bold interventions to deracialize commercial agriculture in South Africa. An effective alternative to the destructive "fast track" policy adopted in Zimbabwe is to subsidize interest rates on loans made to creditworthy land reform projects. The problems associated with cheap credit programs are well documented and have encouraged the government to resist interest rate subsidies. However, many of these problems could be avoided by channeling *finite* interest rate subsidies *that decline over time* to new owners through commercial banks. This has the added advantage of drawing private sector finance and expertise into the land reform process. For example, the LRCF could either discount the wholesale interest rate that it charges commercial banks for its loans with deferred repayments, or it could allocate public and donor funds directly to commercial banks to fund finite, diminishing interest rate subsidies on loans made to disadvantaged buyers of land and equity.